3: Hiscocks G-4, 5 (1946-1949) 1953 EK1 Austria EK1

[R81]

VI

UNRRA and Foreign Relief

THE most urgent economic problem in Austria after the War was the lack of food. It was a problem that could not be dealt with adequately by the first-aid measures that have been described.[1] The assistance given by the occupying Powers in the summer and autumn of 1945 led to a temporary rise in the ration scale, but in the spring of the following year the situation deteriorated. The normal consumer's ration was reduced during March to a theoretical level of 1,200 calories a day. In Vienna during May it amounted in practice to only 950 calories; 'too many to cause death and too few to sustain life', as one member of Parliament put it.

In October 1946 the Federal Chancellor stated in Parliament that Austria had the lowest rations of any country in Europe. According to the official history of UNRRA, Austria had a lower calorie level than any other country in receipt of UNRRA aid. What strained the patience of the Austrian people most severely was an announcement by the occupying Powers in Germany of a higher ration for the ex-enemy country. When this news was made known, food riots broke out in Vienna, and popular indignation was so strong that in November the Austrian Government announced a similar ration of 1,550 calories for Austria. It did so without the approval of the Allied Council and without consultation with UNRRA. There was therefore no guarantee that the necessary supplies would be forthcoming. But the combined efforts of UNRRA and the Governments of the United States and the United Kingdom were equal to the challenge.

The effects of the low calories scale were made worse by the nature of the rations available. They were particularly deficient in fat, animal protein, calcium, and certain vitamins. For two

1 [Cf. category 116, p.20 — Analyst]

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to three months during 1945 in Vienna milk could only be provided for infants in arms and the seriously ill. It was only by gradual and progressive stages that the supply could be organized for children between one and twelve years of age. At the worst period only about 5,000 litres a day were being distributed in the capital, whereas the normal daily consumption in 1952 was approximately 700,000 litres.

The infant mortality and tuberculosis rates in Vienna show the results of under-nourishment. For every thousand live births the mortality rate amongst infants was 191 in 1945, as opposed to 53 in 1938. New cases of tuberculosis numbered 2·87 a thousand in 1946 compared with 1·11 in 1940. The tuberculosis death-rate for the first half of 1946 was nearly double the pre-War figures and about three times as high as in Britain.

The food situation naturally varied a great deal between the country and the towns. In most parts of Austria there was little real shortage on the land, and the consumption of those engaged in food production probably averaged about 3,000 calories a day. In the small country towns, from which access to the farms was easy, official rations could usually be supplemented. It was in the large towns, above all in Vienna, that the position was very serious.

The emergency was aggravated and prolonged by the requirements of the refugees and displaced persons. The return of hundreds of thousands of Austrian prisoners of war during 1945 and 1946 also increased the scale of the problem.

One of the worst features of the whole situation in Vienna was the acute shortage of fuel that accompanied the meagre rations. Gas and electricity were severely rationed, and the supply of both was unreliable and limited to a few hours a day. Fuel of all kinds, whether coal, coke, wood, or oil, for the average person was almost unobtainable. The official ration of coal per household during the winter of 1947–8 was 300 kilograms, and even this quite inadequate amount could not be delivered in full. Yet a great many rooms in the city had broken windows, and glass was in very short supply and

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purchase of raw wool. During the course of 1947 about £4 million worth of surplus British military supplies was also handed over to Austria.

That Britain set an example at this critical juncture is a fact that has not been forgotten by Austrian statesmen. Yet it was clear that the United States alone had the resources to provide assistance on the scale that was required. Generous American help was soon forthcoming. In the first place, a special War Department grant, intended for the American zone, was made available for the whole of Austria. In February 1947 Herbert Hoover visited Vienna to investigate the food situation as President Truman's Special Representative. In a subsequent report he recommended a post-UNRRA relief programme lasting until July 1948, and Congress voted special funds for the purpose. Over $15 million worth of surplus American military supplies was also made available to the Austrians. The help received by Austria from the United States under all these headings during the course of 1947 reached a total of over $100 million, and it was continued during 1948 until the beginning of Marshall Aid.

The Canadian Government provided assistance to the value of $3,400,000, and valuable consignments of food were also received from the Norwegian and Irish Governments.

Austria was thus dependent on supplies direct from the Allies both before and after the period of UNRRA administration, and the greater part of them were provided by the United States and Great Britain. The importance of this contribution to the Austrian economy can hardly be exaggerated, the amount supplied being considerably more than the total UNRRA deliveries. In 1947 only 1 per cent of the rations of Austria's non-agricultural population was covered by commercial imports, although nearly two-thirds of them were imported. Over 60 per cent therefore came from outside sources, and UNRRA itself had ceased operations in Austria by the middle of the year.

During the post-UNRRA period the ration situation considerably improved. In the second half of 1947 the basic ration

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was raised successively to 1,600 and 1,700 calories a day. In June 1948 it went up to 1,800, and the following September to 2,100. Between December 1947 and December 1948 black-market food prices fell from 64 per cent to 15 per cent of the figures for January 1946. This meant that it was at last reasonable to devote a smaller proportion of foreign aid to foodstuffs and a greater amount to economic rehabilitation. Of the £8,500,000 provided by Britain, less than £1,500,000 was spent on food, about the same amount on agriculture, £2 million on coal, and over £3 million on the most urgent industrial needs. Of the American Congress aid allocated for the first half of 1948 just under 60 per cent was devoted to food and just under 40 per cent to agriculture and coal, which was of such vital importance to industry.

The administrative responsibilities of the British and Americans in Austria made them highly sensitive to the country's needs. In spite of the obvious drawbacks of the occupation, there were certain advantages for Austria during the first precarious post-War years in the presence of the Western Allies on her territory. Without them the process of rebuilding the administration and economy after the collapse of the Nazi system would almost certainly have been accompanied by even more acute material shortages than those that were actually experienced.

Though the Austrian basic ration did not rise above 1,600 calories a day until November 1947, the minimum physiological needs of the normal consumer have been estimated at 2,160 calories. It might have been expected, therefore, that the results of so long a period of under-nourishment after the strain of the War would have been far worse than they actually were. One reason why they were not has already been mentioned: a large number of people resorted to the black market. But there were two other explanations.

During 1947 there were approximately 5 million Austrians in the rationed, as opposed to the self-supplying, category. Of these only about 2 million were normal consumers in receipt of basic rations. All the rest, either as employees, workers,

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heavy workers, children, or nursing and expectant mothers, were entitled to additional or special rations. Children had less calories, but received a special allocation of milk. In the case of employees the addition was small, but for workers of all categories and for nursing and expectant mothers it was considerable, though the minimum requirements were correspondingly greater.

The second explanation was the widespread and well-organized relief work undertaken by a large number of foreign organizations, mostly on a private and voluntary basis.

Of the countries that had themselves been engaged in the War, the United States and Britain took the lead in providing voluntary relief for Austria. By the beginning of 1947 a group of British societies, pooling their resources and working with the British Red Cross, had, together with the Irish Red Cross, delivered over 5,000 tons of food, 400 tons of medical supplies, and forty tons of clothing to Austria. During the summer of 1946 the British Forces in Austria organized a highly successful Searchlight Tattoo, the proceeds of which, amounting to 400,000 Austrian schillings, were handed over to the mayor of Vienna for the benefit of the children of the city. By the beginning of 1947 various American charitable organizations had delivered to Austria over 9,500 tons of food and 320 tons of clothing. A large-scale relief scheme had been organized, known as the Co-operative American Remittances to Europe, which was happily abbreviated to the word CARE. Throughout the post-War years the arrival of large food parcels, known as CARE packets, was a cause of much happiness and gratitude amongst a great many individuals and institutions in Austria. The Quakers of both countries, in addition to distributing food and clothing, made a special contribution by organizing holiday homes for young people.

Of the neutral countries, Switzerland and the Scandinavian nations made the outstanding contributions.

The first help from Switzerland arrived in the Tyrol and the Vorarlberg as early as May 1945, and by November provisions and medical supplies had begun to reach Vienna. During the

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cerned to increase the efficiency of all branches of the national economy.

Marshall Aid resulted almost at once in a marked acceleration in the rate of Austrian recovery. Whereas industrial production was only about 43 per cent of the 1937 figure in 1946 and only rose to 56 per cent in 1947, in 1948 it jumped to 92 per cent, in 1949 to 123, and in 1950 to 145. After this the rate declined, partly because the return to more normal conditions made any further acceleration impossible and partly because the outbreak of the Korean War, by increasing the price of raw materials, reduced by a third the real value of ERP dollar payments to Austria.

By the end of 1951 the extent of Austria's recovery was impressive, and it could not possibly have been achieved without the steady, well-planned assistance on a vast scale that Marshall Aid implied.

The Austrian gross national product in 1951 had more than doubled since 1946 and was approximately 18 per cent above the pre-War level. Industrial production had risen to 165 per cent of the 1937 figure, while agricultural production, having risen from 56 per cent in 1947 to 90 per cent in 1950, remained at about the same level in 1951. Industrial productivity was more than doubled between 1947 and 1951, and in the winter of 1951–2 stood approximately at the 1937 level.

These figures taken on their own, however, are somewhat misleading. For two reasons the real per capita income and the standard of living of the Austrian people were still slightly short of the pre-War level at the end of 1951, although probably about three times as high as they had been immediately after the War. The population had increased by more than 2 per cent, and there were therefore more mouths to feed than there had been in 1937. In addition, a much higher proportion of the national income was being invested than before. After four years of Marshall Aid the average Austrian was eating little more than a third of the quantity of meat eaten by the average American.

If the different branches of the Austrian economy are

454 corporations reflecting open problems to be solved by the state treaty (German property, compensations, etc.). The combined index of free and nationalized enterprises bears out the development sketched above. There is a decrease from 363 in 1948 (March 1938 = 100) to 309.7 in 1949 and 244.7 in 1950, although the [434] purchasing power of money decreased from 1938 to 1950 by 5/6.

Under these circumstances it is not surprising that the stock exchange presently plays a small role in the raising of capital and the placement of new shares in the capital market. Thus, for example, during 1950 only four corporations increased their capital: The Osterreichische Brown Bovery A. G. (from 2.4 to 3 million schillings), the Brauerei Schwechat A. G. (from 20.83 to 21 million schillings), the Semperit A. G. (from 10 to 30 million schillings) and the Wagner Biro Maschinenfabriken A. G. (from 5 to 10 million schillings).

[455] A similar situation prevailed in the bond market. The report of the Vienna Stock Exchange states: "In April 1950, when the 5 per cent Reconstruction Loan of 1949 was listed on the exchange at 85 (subscribed up to 324.6 million schillings), the investment market had partially adjusted itself to the prevailing new interest rates. Issues of the provinces and municipalities, generally bearing interest at a rate of 4 per cent, decreased in value from 100 per cent to 92 per cent. The market in debentures (up to the end of 1950 debentures and municipal bonds amounting to 596.4 million schillings at par were circulating) had to overcome certain difficulties, since it is based on a 4 per cent interest rate and the change of quotations in connection with the credit extension to debtors represents a difficult problem...." During the summer months of 1950 a new type of debentures appeared. They matured after 6 years (previously they had been 40-50 years) with which, naturally, only credits extending for an approximately similar period of time could be financed. The amounts derived from such issues were primarily used for public investments.

It is a fact that presently bonds are quoted below par value since, besides the above-mentioned reasons, the scope of buyers is a rather limited one. From September 30, 1948 (the first time after the currency reform that particulars about the circulation of debentures and municipal bonds were published) to the end of 1950 only 95 million schillings in debenture bonds and

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434 With the gradual diminution of the ERP aid, the raising of new capital gains significance. It is a question made particularly difficult inasmuch as prices rose on the world markets during the last half year and the decline in the purchasing power of the schilling caused by the lag in wages. (Running parallel is the sharp decline of the value of savings deposits.) A number of other factors retard the creation of savings capital: the lowered real wages, the long pent-up consumer demand of the broad masses, the lack of investment-seeking capital from insurance institutions which, as holders of collective saving, normally placed substantial amounts at the disposal of the capital market, the use of retained profits for self-financing of investments and, last but not least, the stress of fiscal necessities.

Naturally, Austria shares these developments with other European nations. Even France, the country of savers, according to latest reports has experienced a decline in savings to 4.3 per cent of the national income.

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[652] Despite progressive credit extension (which is, qualitatively as well as quantitatively, being held under control by measures adopted during the first quarter of 1951), in contrast to other economically stronger nations, there seems to be no dangerous monetary development even though the political situation in the world in the fall of 1950 caused an increase in the volume of money and payments.

plant managements, can be achieved only through accumulation of an adequate yearly (savings) investment percentage (during 1950 investments in plants, structures, rolling-stock, equipment, etc., amounted to 20 per cent of Austria's national income, against 6 per cent in 1937; the 1950 investments were to a large extent the result of foreign assistance), as well as technical progress, rationalization of plant operations and adoption of modern psychological working principles. 433 439 454

Only such a procedure assures a genuine increase of the real income. However, whether an increased production output is followed by a decrease of prices or by an increase of wages (raising the living standard) or whether necessity demands a combination of both is problematical. [434]

On the basis of a favorable world-wide political scene it is hoped that Austria will realize her economic program as worked out with the help of international experts. Better technical equipment will lower the individual wage quota, thereby establishing a more favorable competitive basis. Thus, together with a transfer of skilled labor to production of export goods, the desired adjustment in the balance of payments will be achieved. In this connection the resettlement drive, initiated by the ERP, furnished a possibility to shift needed manpower to plants short of help. The higher real wages, resulting from an increased productivity, will then provide a basis for the accumulation of savings capital needed for additional investments. However, considering the special position Austria occupies, it will be necessary to grant her a breathing spell for achieving her economic aims. 433

d) Budgetary developments.

Within the scope of combined reorganization procedures, special attention is directed towards the balancing of the budget. Due to the large expenditures covering the reconstruction of public enterprises and administrative organizations damaged by the war and the increase in economic tasks of the government, e.g., occupation costs and the expenditures in connection with "Auslandsfürsorge" (welfare of the DP's, expellees, refugees), the consolidation of the budget (in spite of a rising national income) was only partly possible in 1949 and 1950 inasmuch as fluctuating demands exceeded narrow tax receipts. 652 727

C. Tourist Traffic

Along with the increased economic consolidation, there has been a rising development of the tourist traffic, which is of great importance to the Austrian payments and foreign currency balance. The number of overnight guests increased from 10.9 million in 1949 to 14.09 million (an increase of 29 per cent) in 1950. The upward trend started immediately after the exchange rates were altered in November 1949, and concerns primarily foreign visitors. There were 4.58 million foreign overnight guests in 1950 alone, an increase of 155 per cent as compared with the preceding year. This, however, is only 70 per cent of the 1937 level. Among the countries from which most foreign guests came were Italy, Great Britain and Switzerland, in that order. 457

Foreign currencies derived from these services amounted to 15.05 million dollars (391.3 million schillings) in 1950. In the scope of the payment balance this corresponds approximately to the expenses for freight and transportation or, in other words, to 10 per cent of the whole deficit from foreign trade. In 1937, the influx of foreign currencies from this source amounted to 41.2 million dollars or 220 million schillings (i.e., at the present dollar exchange rate, 80 million dollars). The present income in foreign currencies, therefore, corresponds in purchasing power to only 20 per cent of the prewar income from the same source. To support the tourist traffic (modernization and extension of hotels, resorts, etc.) 280 million schillings from counterpart funds are being provided in the investment program 1950-52. Of this amount 28.8 per cent (109.3 million schillings) have been allocated during 1950.

D. Balance of Payments and the "Gross National Product."

According to calculations of the Oesterreichisches Institut für Wirtschaftsforschung, the Austrian "gross national product" amounted to 30.0 and 36.8 billion schillings in 1948 and 1949, respectively. Figures are not available for 1950. Compared to the price level of 1937, the gross national product for 1948 is 7.7 billion schillings and for 1949, 8.6 billion schillings, as compared with 8.5 billion 434

434 schillings in 1937. Although this increase from 1948 to 1949 was caused mainly by changes in prices, the fact remains that the gross national product increased in 1948 by 15 per cent and in 1949 by another 12 per cent. Thus, the prewar level was approximated. The increase of capacity and at the same time the increase of the gross national product in the years 1948-50 is due to the rise in productivity of the whole economy. However, further increase will be even more difficult because the utilization of capacities and of available labor reserves will advance. Although industrial production had reached a level in 1947 equal to 56 per cent of the 1937 level (in 1949 119 per cent and in 1950 140 per cent of the prewar volume), the productivity increased in the same period from 47 per cent to 79 per cent (in 1949) and 90 per cent (in 1950). Therefore, it still lags behind the prewar period. The same holds true for agriculture; the total production (agricultural and livestock production on the basis of 1937) reached only 55 per cent of the 1937 level in the year 1947, 80 per cent in 1949 and approximately 84 per cent in 1950, but the productivity reached only 90 per cent.

[439] Remarkable progress was attained as compared to the years 1945-46. By its own efforts and with the help of foreign aid Austria could satisfy the urgent demand for imports and the volume of imports was increased above the prewar level. The exports, however, lagged behind as measured by the quantum-index. The same holds true for the balance of services. On the basis of economic data the balance of payments of Austria in 1950 is presented in the following table.

Explanatory notes to table:

457
a. Quoted in dollars due to change in exchange rate.
b. Calculated in dollars for 1949 and 1950 by the Oesterreichische Statistisches Zentralamt.
c. Other services.
d. Up to June 1950 including drawing rights.
e. Among them aid deliveries in form of credits; no decision has been made about the obligation for repayment.
f. Net payment of drawing rights up to the end of June 1950, and Initial Position payments since July 1950.
g. Provisional figure.

bringing new problems of adjustment. These were solved by a new general agreement of the Chambers of Economy (in July 1951), in which the main considerations were: the out-of-line prices in agriculture, the necessity of decreasing the subsidies for imports still existing, and the boosting of tariffs. Special aims of the economic policy were: 652 [435]

1. To restrict the utilization of foreign aid for consumption goods in order to afford a bigger part of the total volume of goods and services for investment activities or, at least, a non-fluctuating part in the case of a decrease in foreign aid. The top aim was a change in the utilization of the gross national product. [434]

2. To balance the agricultural prices which were out of line. In this way, conditions were to be created for an optimal distribution of the available aids through the price mechanism (changes in the constitution of the gross national product). [435]

3. To effect conditions for a new distribution of income; this referred, in the first place, to agriculture and employment in public services, to persons living on state relief and pensionists (for these last two groups an adjustment of the real income was secured by the so-called "Nachziehverfahren"); the real wages of the other wage earners should be kept on the existing level (changes in the personal distribution of the gross national product). [454]

It was not easy to encompass these aims within the concept of economic policy, since automatically secondary and tertiary reactions to these changes were to be expected upon the total price structure. Be that as it may, the immediate results of this agreement were the following regulations:

1. Agriculture received higher production prices for wheat, rye and milk, by which a better market capacity might be obtained (stimulation of the production). [435]

2. The subsidies for the import of bread grains, fodder grains, and raw materials for fats were diminished. Consumer prices corresponded generally to the average (newly calculated) prices of the producer (unless fixed by special regulations). As far as import subsidies continued, they became part of the budget while the incomes from sales were kept on the same level of value as those from the ECA counterpart accounts. [654] [439]

these aims will be discussed later), which becomes more and more urgent because of the decrease in ERP funds, means from counterpart funds for investment aims had to be released to an increasing degree. 457 652

The Austrian government declared, therefore, its readiness as early as the fourth price and wage agreement to abolish all ERP subsidies for imports. In the interest of keeping living costs at the lower level, also, certain quantities of vital goods were provided at lower prices in 1951. Besides fertilizers and raw materials for fats (which continued to be calculated on the basis of former prices), the prices of wheat and fodder corn were increased but they still remained far below the prices on the world market. In addition, smaller subsidies were provided to support the prices of sugar, glass, drugs, and hides. 652 435 439 654

In spite of the partial abolition of subsidies, they still amounted to approximately 1 billion schillings for the period from October 1950 to June 1951. Seven hundred and fifty million schillings went to the debit of the counterpart accounts and 250 million schillings to the debit of the budget. Further subsidies had to be faced for two reasons: a sinking of the allocated means in the last year of the Marshall Plan (1951-52) had to be taken into consideration; and further means were necessary to continue investments which already had been started.

The agreements, therefore, provided adequate increases in sale prices for the import of individual goods. In spite of these price correction measures by which the difference between the import prices for wheat, rye, fodders and raw materials for fats and the prices on the world markets could be diminished, but not fully absorbed, there still remained a considerable burden on the budget because of the existing prices on the world market and the projected quantities of imports, as well as by changes in the ways of financing (transfer of counterpart accounts to the public budget). Thus, the differences had to be covered by the next balance period, a fact which the government budget 1951-52 had to take into account. This problem will rise again with the end of the Marshall Plan aid in June 1952.

If one considers the results of these agreements as a whole, a clear success had been scored in the prevention of further increases of subsidies, in the improvement of real income of public servants. 652 434

434 pensionists and persons dependent on state relief.
652 The correction of some out-of-line prices was also effected. To achieve these results the gross income of wage earners increased by approximately 6.1 billion schillings, the tariffs by 1.5 billion schillings and the incomes of agricultural workers by 640 million schillings. A flow of money has been effected surmounting by many times the net effect of the transfers in incomes. Future regulations will provide the final easing of tensions caused by the structure of prices and wages. By the same token, the final solution of certain apparent budgetary problems (remaining subsidies) and problems of the economic policy must be postponed, especially in view of social considerations.

435 The increases of prices, wages, taxes and tariffs by the fifth price and wage agreement caused, in many respects, a considerable movement of prices even in fields other than those comprised in the agreement. The intensity of this movement, however, was diminished by the continuing high industrial production (the number of employed reached more than 2 million people in the middle of the year) and by the sinking of prices in the world markets. However, there were a number of secondary, even tertiary, reactions which could not be avoided, although these reactions raised the general level of prices as a result of increasing demands in the second half of the year.

435 The prices of raw materials, however, were
439 stable in the early summer. The wholesale trade index of the Statistisches Zentralamt sank by 0.6 per cent (from 795 to 790; based on the formula 1938 = 100) from the middle of July to the middle of August. This was caused mainly by price reductions of the most important foreign raw materials (wool, rubber, tin), while domestic raw materials and semi-manufacturers (leather, petroleum, gasoline, building materials, aluminum and cellulose, among others) brought higher prices. This backward development led to a rise of domestic prices of raw materials and semi-manufactures so that they approximated the highly increased prices in the world market after the outbreak of the Korean conflict. Special problems in the development of foreign trade became acute because the prices of domestic finished goods had to adjusted to the levels of world market prices.

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	1947[a]	1948	1949	1950[b]
	(In millions of schillings)			
A. Current Expenditures				
Import of Goods	312.0	489.8	603.7	481.6
Invisible Expenditures	4.3	6.0	21.1	28.5
Total	316.3	495.8	624.8	510.1
B. Current Income				
Import of Goods	90.7	206.9	291.5	335.0
Invisible Income	19.8	21.7	37.8	46.1
Total	110.5	228.6	329.3	381.1
C. Deficit of the Current Balance of Payments	205.8	267.2	295.5	129.0
D. Increase in Deposits of Foreign Currency	7.3	19.4	11.1	30.3
E. Debt Liquidation	--	8.0	7.5	6.9
F. Statistical Correction	† 6.0	† 6.7	- 1.3	†45.5
G. Import of Capital, including Aid Deliveries	219.1	301.3	312.8	211.7

a) According to estimates of the International Monetary Fund.
b) 1948, 1949 and 1950: According to reports of the Board of Directors of the Austrian Nationalbank.

In spite of the initial difficulties and in spite of the impossibility of taking up the threads of development as they were before 1937 (attention is called to fundamental changes in the political, economic and social structure of central and south-eastern Europe), Austria was able to hold to a level which secured inner stability and an equilibrium in external relations. With the help of foreign aid granted in the last few years, Austria was thus able to achieve, among other things, a balance of payments.

434 ● 433

Since 1946, when the gross national product available for consumption and investments (goods and services) had sunk to almost half the prewar amount, the gross national product and productivity has been doubled in the last few years. By 1950, the prewar level was exceeded by 10 per cent. In the same period industrial production increased two-and-a-half times and the volume of the total agricultural production increased by approximately one-half. A relatively high

433 investment rate as well as an increase of the general
434 level of consumption was made possible by this extension of the gross national product.

In 1951, the gross national product (according to provisional calculations and estimations of the Oesterreichische Institut für Wirtschaftsforschung) increased by about 7 per cent in spite of production bottlenecks. This figure, however, is slightly lower than in 1950 (10 per cent), but still higher than could be expected in a normal economy. This increase was almost exclusively due to the industrial production which, owing to the 10 per cent rise in productivity, could produce 14 per cent more goods than in 1950. In this way reactions on the level of prices could be neutralized in some ways
[457] through the greater quantity of goods. However, as the exchange conditions in Austrian foreign trade deteriorated by 10 per cent, and as the increase in prices on the world market lowered the real value of foreign aid by one-third, the Austrian economy in 1951 had only about 4 per cent more goods and services (i.e., about 2.3 billion schillings) for consumption and investments at its disposal than in 1950. Tourist traffic showed an increase of about 20 per cent more overnight guests in 1950-51 than in the preceding season, but the remaining sectors of economy, especially agriculture, showed only slight progress.

434 In the previous six years, especially since
454 1948, a far greater part of the gross national product was invested than before the war. In 1937 only about 6 per cent of the available gross national product was used for investments. The percentage increased from 17 per cent in 1948 to 20 per cent in 1950. As a comparison, the annual average in Great Britain is about 18 per cent. In 1951 the increase of the gross national product invested reached its highest extent, about 21 per cent. The greater part of these investments was carried out within the scope of the public budget or through special funds (for instance, reconstruction fund for dwelling units) and out of ERP funds. (In 1951 about 3.7 billion schillings flowed in from the purchase of ERP goods upon counterpart accounts). The high level of the investment rate, however, was only possible with foreign aid. It will be one of the main considerations of the Austrian economic policy to keep to or divert an adequately high rate after the end of the Marshall Plan. In this connection the adjustment between the investment rate and the monetary stability as well as the distribution of investments between

industries of production goods and consumer goods, will gain top importance. 434 454

During the Marshall Plan period preference was given to short-term investments within the scope of the Austrian Investment Program 1950-52. The aim was to ease the strain on the balance of payments, either by an increase of exports or by a decrease of the import demands, whether by direct or indirect means (for instance, by lower prices for semi-manufactures in industries which depend upon exports). The decisive factor for the selection of investments was the degree of contribution to the balancing of payments within the shortest time possible. This had to be coordinated with the requirements for big projects which had been started or were far advanced. In this way the projects could be completed in a technically and economically sound way. By finishing the started projects, especially in electric energy and in the iron and steel industry, Austria should be enabled to use its rich natural resources (water power, iron ore) as rationally as possible and better than was the case before. In view of the low capacity of the domestic capital market these projects had to be carried out, as far as possible, within the ERP period. In spite of the continuation of big industrial projects, the main tendency of the three-years' program (1950-52) is to give industries and crafts which need export outlets as well as the tourist traffic higher counterpart sums in the last two years than they received in 1948-49. It is self-evident for reasons of export and social policy that the investment plan tries to support, above all, small and medium-sized enterprises of the semi-manufactures category and the crafts. [457] 652 454 457

Development of the most important economic fields is on the average satisfactory. One has to consider, however, that the full results of investment projects, especially the big ones, will not show up until 1954-55. Most impressive has been the development of the iron producing industry. Thus, for instance, in 1950 about 15 times more raw iron and 5 times more raw steel and rolled products were produced than in 1946. The production of the iron producing industry surmounted that of the prewar level in 1945. Compared to 1937, by 1950 the production of raw iron was higher by 128 per cent, that of raw steel by 46 per cent, that of rolled products by 37 per cent, and that of pressed and wrought iron products by as much as 246 per cent. This development continued in 1951. Thus, the production of 433 327

AUSTRIA'S ECONOMIC DEVELOPMENT

458 What were the effects of the inflation on Austria's economic life? It is impossible to give a comprehensive answer because an inflation of these dimensions affects practically every aspect of society. Nevertheless, some of its more important consequences must be indicated at this point.

Perhaps the most fatal effects were those on wealth and income. Wealth in money-form lost its value almost overnight. This was particularly hard on the small saver who had not the same knowledge or opportunities as the big investor or large company who quickly learned how to turn their liquid money into foreign exchange or into goods. By 1922, of course, practically everybody had realized the implications of a rapidly depreciating currency; even schoolchildren hoarded a few Swiss francs, dollars, or Czechoslovak Crowns which they had obtained in one way or other. But by that time the greater part of the savings of the middle and working classes, accumulated over decades, had melted to nothing.

458 The distribution of income, too, was greatly affected. Inflation is essentially a method of taxation which leaves
• 434 the actual money in the hands of the income receiver but reduces its purchasing power. It is, however, a form of taxation that falls very unevenly on different groups of the population. Some find their income reduced to a starvation level while others find their real income considerably increased. Huge profits were made as prices rose rapidly while costs lagged behind (at least before 1922 when most costs and particularly wages were more rigid than the price level). Those firms which grasped the essence of inflation at an early stage and turned these profits at once into plant, stocks of goods, or foreign exchange, emerged in greater strength at the end. Small firms, on the other hand, which had neither the financial experience nor the

THE BIRTH OF A NEW REPUBLIC

same opportunities of quick and cheap buying, found their receipts insufficient to replace their working capital. The tendency towards concentration was thus greatly accelerated in this period. The larger concerns and the banks especially were able to expand at the expense of the smaller enterprises.

Although money wages rose considerably during the inflation, they lagged greatly behind the cost of living. This was true at least until 1922 when both prices and wages came to be fixed in terms of dollars (and thus rose automatically with every depreciation of the Crown). The following wage indices for certain categories of labour show the deterioration of real wages:

INDEX NUMBERS OF WEEKLY WAGE RATES OF WORKERS IN VARIOUS OCCUPATIONS IN VIENNA[1]

(1914 = 1)

	Bricklayers	Printers	Joiners	Metal Workers	Tailors	Cotton Spinners	Cost-of-Living Index
1921.							
Dec.	541	385	503	394	338	424	661
1922.							
Mar.	858	617	603	585	666	627	989
June	1,180	935	1,131	810	915	1,477	2,339
July	2,030	1,280	1,290	1,546	1,419	1,419	3,308
Aug.	2,910	3,270	3,019	2,162	4,481	4,675	7,422
Sept.	8,980	6,060	6,570	6,603	5,377	6,358	14,153
Oct.	11,600	7,270	8,333	8,637	7,618	7,714	12,965
Nov.	11,600	7,270	8,333	8,637	7,618	7,188	12,158
Dec.	11,300	7,270	7,666	7,786	7,085	6,837	11,737

Salary earners (such as clerks, teachers, and civil servants) were even worse off than wage earners as their incomes were revised upwards only at rare intervals.

Worst of all, of course, was the position of old-age

1 [CP CAT 1116, p. 35 -- ANALYST]

RECOVERY

1932 League of Nations Loan to lower interest rates, greatly eased the burden of Austria's foreign debt service. Interest payments fell from 282 million schillings in 1932 to 110 million schillings in 1937.

The improved position in the spheres of foreign trade and foreign indebtedness, and the reorganization of banking after the fall of the Credit-Anstalt,[1] put Austria's finances on a thoroughly sound basis. The gold and foreign exchange reserves of the National Bank recovered to a comfortable level. This enabled the Government to do away with most of the exchange control introduced at the height of the crisis; and the value of the schilling was successfully maintained when, in 1936, three of Austria's neighbours—Italy, Switzerland, and Czechoslovakia—devalued their currency.[2] For the second time in her short history Austria had emerged successfully from a very difficult financial position. Confidence in her stability was restored, and in 1937 Austria was in the unique position among all the European debtor nations of obtaining short-term commercial credits on the London market.[3] There can hardly be any doubt that Austria could have solved her problems without any further foreign assistance had she been able to maintain her national independence.

Altogether, then, it may be said that Austria had passed through a period of sound, if stormy, development in the twenty years of her existence. Many improvements were still required, many mistakes remained to be made good. Nevertheless, Austria had reached economic standards which compared very favourably with those of most other countries in central and eastern Europe. Her economic structure was much more similar to that of the Western industrial nations, though her standard of living fell greatly short of, say, British standards. To illustrate

1 [CA CATEGORY 116, p. 77 — ANALYST]

9: Rothschild E-4, 5 (no date) 1947 EK1 Austria EK1

AUSTRIA'S ECONOMIC DEVELOPMENT

Austria's intermediate position between the countries of eastern and western Europe, two sets of comparisons may be given: one showing estimates of the national income of some of the countries in question; the other showing the yearly consumption of some manufactured consumer goods.[5]

ESTIMATES OF NATIONAL INCOME

Country	Year of Estimate	Approx. National Income per Head in U.S. Dollars
Austria	1935	150–160
Czechoslovakia	1937	150–160
Hungary	1937	90–100
Yugoslavia	1937	55–65
France	1936	270–280
United Kingdom	1935	490–500

ESTIMATED YEARLY CONSUMPTION OF SOME MANUFACTURED GOODS PER HEAD OF POPULATION

(Year: 1937)

	Cotton Goods (kilos)	Paper (kilos)	Sugar (kilos)	Wireless Sets (No. of Licences per 1,000 Persons)
Austria	5·1	14·8	19·5	92
Czechoslovakia	4·2	13·9	22·4	69
Hungary	2·4	10·0	12·7	43
Yugoslavia	2·0	3·5	5·4	7
Western Europe	8	30	32	120

THE NEW POLITICAL FRAMEWORK

In this second period of recovery Austria thus acquired what had only been half accomplished in the years from 1923 to 1929: a sound and stable economic foundation. But the recovery after 1932 did not simply pick up the threads of 1929. Political conditions had changed considerably, both at home and abroad; and this decisively

9: Rothschild E-4, 5 (no date) 1947 EK1 Austria EK1

influenced the economic structure which emerged in these last years of Austria's independence. Two factors, in particular, were of importance: the changeover from a democratic to an authoritarian régime; and the rapid growth of the German trade offensive in south-eastern Europe.

At home, the most obvious results of the destruction of democratic institutions were of course to be found in the political field. But there were also important economic concomitants. The dissolution of free trade unions and of other democratic bodies eliminated every organized force which might have safeguarded the share of the mass of the population in the national income. While production as a whole returned to and even surpassed the 1929 level, the production of consumption goods—contrary to the experience in most of the other countries—remained far below it. The trade revival came largely from increased exports, rearmament, and public works.[7] The strong cartels which covered a large part of Austria's industry (e.g. in the iron and steel trades, in electrical engineering, in chemicals, rubber processing, sugar refining, in the paper and brewery trades, etc.) absorbed a large proportion of the rising national income into profits, and the revival failed to spread to the consumption goods industries which remained depressed and were a source of unemployment.

The external effects of the changed political situation were even more marked. In the inter-war period, and particularly after 1929, when tariffs, quotas, currency wars, etc., became the order of the day, the economic relations between most countries ceased to be governed by transactions between private traders. Foreign trade increasingly became the concern of governments, and economic policy a special aspect of foreign policy. Austria

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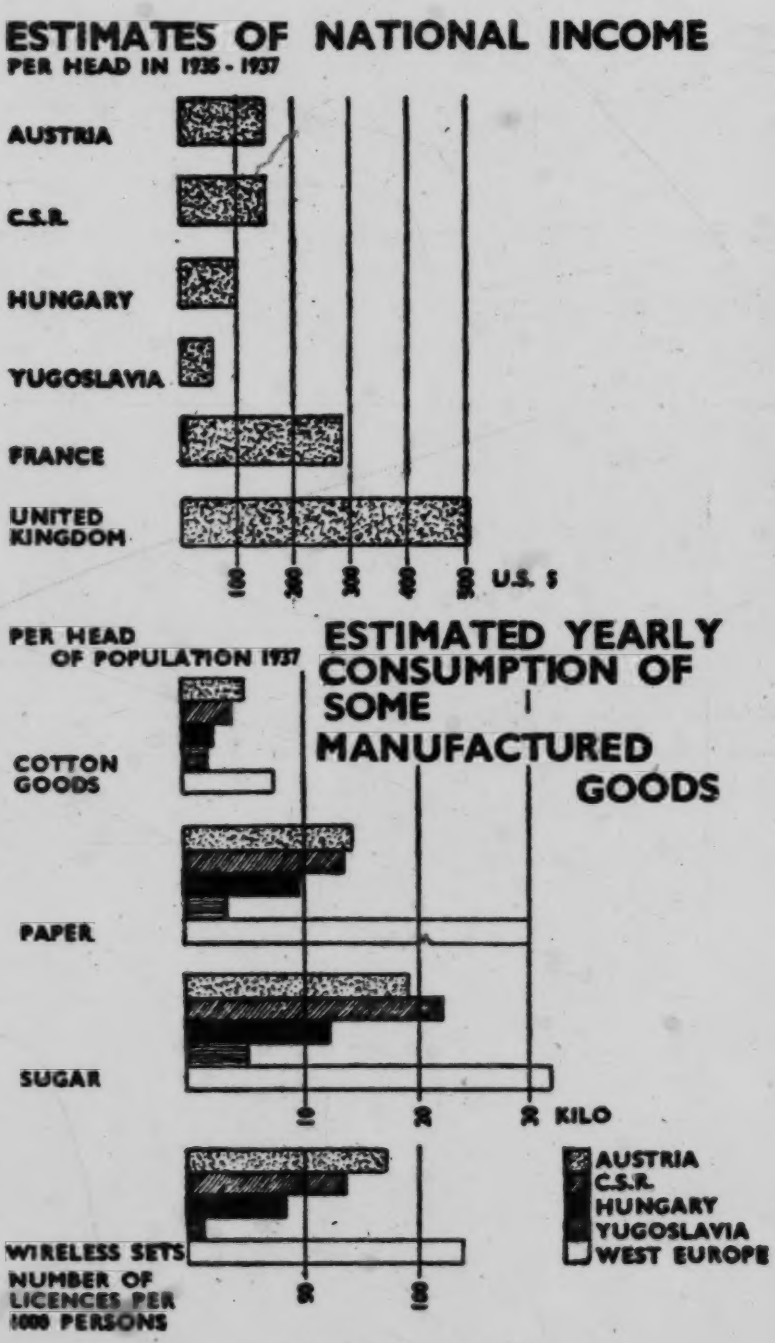
ESTIMATES OF NATIONAL INCOME
PER HEAD IN 1935 - 1937
AUSTRIA
C.S.R.
HUNGARY
YUGOSLAVIA
FRANCE
UNITED KINGDOM
U.S. $
PER HEAD OF POPULATION 1937
ESTIMATED YEARLY CONSUMPTION OF SOME MANUFACTURED GOODS
COTTON GOODS
PAPER
SUGAR
KILO
AUSTRIA
C.S.R.
HUNGARY
YUGOSLAVIA
WEST EUROPE
WIRELESS SETS
NUMBER OF LICENCES PER 1000 PERSONS

[p. 116]